

Grants Made Easy: Cost Principles

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Review for Unallowable Costs

Review for Unallowable Costs

- Circular A-21, Section C.
- Circular A-87, Section C.
- Circular A-122, Section A.
- Applicability
 - » A-21-Circular establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions.
 - » A-87-Circular establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and Local governments and federally recognized Indian Tribal governments.
 - » A-122- Circular establishes principles for determining costs of grants, contracts, and other agreements with non-profit organizations.

Review for Unallowable Costs

■ What is an Allowable cost?

- Necessary and reasonable
- Allocable to Federal Awards
- Authorized or not prohibited under State or local laws or regulations
- Conform to any limitations or exclusions set forth in the cost principles

Review for Unallowable Costs

- What is a reasonable cost?
- “Prudent person test”
 - » Cost generally recognized as ordinary and necessary
 - » Arm’s length transaction
 - » Act with due prudence
- Consistent with institutional, governmental policy
- Translation – Wear your taxpayer hat

Review for Unallowable Costs

- A cost is allocable to a particular cost objective if under Circular A-21, Educational Institutions it
 - » Benefits solely the Sponsored Agreement
 - » Benefits both the Sponsored Agreement and other functions
 - » Necessary for overall operation of the institution and is assignable, in part, to sponsored agreements

Review for Unallowable Cost

- A cost is allocable to a particular cost objective if under Circular A-87, State and Local Governments
 - » The goods and services involved are chargeable or assignable to a cost objective in accordance with relative benefits received.
 - » All activities which benefit from the government unit's indirect cost, including unallowable activities and services donated to a government unit by third parties, will receive an appropriate allocation of indirect costs.

Review for Unallowable Costs

- A cost is allocable to a particular cost objective if under Circular A-122, Non-Profit Organizations
 - » The goods and services involved are chargeable or assignable to a cost objective in accordance with relative benefits received
 - » Costs are consistently treated
 - » Costs are not shifted from one particular award to another to overcome funding deficiencies

Review for Unallowable Costs

- Overall
- Cost must be consistently treated
- Conform to limitations or exclusions of A-21, A-87, A-122, Sponsored Agreement, grant award or contract

Review for Unallowable Costs

- Accounting for Unallowable Costs – A-21
- CAS 505, A-21, Section C.12. – “Accounting for unallowable costs – Educational Institutions”
 - » (a) Costs expressly unallowable or mutually agreed to be unallowable, including costs mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, application, or proposal applicable to a Government sponsored agreement.

Review for Unallowable Costs

■ CAS 505, A-21, Section C.12. (cont'd.)

- » (b) Costs which specifically become designated as unallowable as a result of a written decision furnished by a Federal official pursuant to sponsored agreement disputes procedures shall be identified if included in or used in the computation of any billing, claim, or proposal applicable to a sponsored agreement. This identification requirement applies also to any costs incurred for the same purpose under like circumstances as the costs specifically identified as unallowable.

Review for Unallowable Costs

■ Section C.12. (cont'd.)

- » (c) Costs directly associated with (b) above, are unallowable
- » (d) Unallowable costs must be separately accounted for...permits ready separation from [authorized] costs
- » (e) Unallowables are subject to overhead (F&A) charges where appropriate
- » (f) Cost overruns should be included in the base

Review for Unallowable Costs

- Specifically addressed in CAS Disclosure Statement (DS-2)
 - » Part I, Item 1.3.0. – How does institution identify unallowable costs?
 - » Part I, Item 1.3.1. – How does institution treat unallowable costs in each allocation base and indirect expense pool?

Review for Unallowable Costs

- A-21, Section J. - General provisions for selected items of cost.
 - » Very important to become familiar with this section as it outlines costs that are allowable and those that are unallowable

Review for Unallowable Costs

- How to identify unallowable costs

- » Pre-audit screening

- Who does it (central vs. department review)?

- When should it be done?

- Who conducts training?

Review for Unallowable Costs

- How to identify unallowable costs (cont'd.)
 - » Object/sub code identification
 - » Account identification
 - » Expenditure sampling
 - » Internal/external audit review
 - » Other methods

Review for Unallowable Costs

- A-21, Section J. - General provisions for selected items of cost.

- Most commonly known unallowable costs

- Alcoholic beverages – J.3

- Bad debts – J.6

- Contingency reserves – J.11

- Entertainment – J.17

- Fines and Penalties – J.19

- Fund Raising and Investment management – J-20

Review for Unallowable Costs

- A-21, Section J. - General provisions for selected items of cost (cont'd.)
- Other unallowable costs
 - Some advertising and public relations – J.1
 - Alumni activities – J-4
 - Commencement and convocation – J.8
 - Lobbying activities – J.28
 - Losses on other sponsored grants and contracts – J.29

Review for Unallowable Costs

■ Accounting for Unallowable Costs – A-87

- A-87 accounting for costs similar to those of educational institutions.
- A-87 Section, Attachment B
- Most commonly known unallowable costs
 - Alcoholic beverages – No.1
 - Bad debts – No.5
 - Contingency reserves – No.9
 - Entertainment – No.14
 - Fines and Penalties – No.16
 - Fund Raising and Investment management – No.17
 - Lobbying – No. 24

Review for Unallowable Costs

■ Accounting for Unallowable Costs – A-122

- A-122 accounting for costs similar to those of educational institutions.
- A-122 Section, Attachment B
- Most commonly known unallowable costs
 - Alcoholic beverages – No.3
 - Bad debts – No.5
 - Contingency reserves – No.9
 - Entertainment – No.14
 - Fines and Penalties – No.16
 - Fund Raising and Investment management – No.17

Review for Unallowable Costs

■ Accounting for Unallowable Costs –A122 (Cont'd)

■ A-122 Section, Attachment B

■ Most commonly known unallowable costs

- Housing and personal living expenses – No. 20
- Lobbying – No. 24
- Losses on other sponsored agreements or contracts – No. 26
- Organization costs unallowable except with prior approval of awarding agency –No. 31
- Selling and Marketing

Review for Unallowable Costs

- Collection of unallowable costs
 - » Costs charged and found later to be unallowable
 - » Refunds to Federal Government plus interest and penalties

